

RESURGENCE OF PRIVATE MARKETS

*A Look at Nontraded REITs
and BDCs, and Credit/Debt Markets*

TURNING REAL ASSETS EXPERTISE INTO INVESTMENT OPPORTUNITY

Real Estate | Infrastructure | DSTs (1031 and 721 Exchanges) | Qualified Opportunity Funds

Leading global financial services firm for over
77 years with **investment grade** rating

Over **\$140 billion** in real assets transactions in 2021

12,000+ employees, **160** offices, **22** countries

www.cantor.com | (855) 9-CANTOR | cfsupport@cantor.com

Cantor Fitzgerald refers to Cantor Fitzgerald, L.P., its subsidiaries, including Cantor Fitzgerald & Co., and its affiliates including BGC Partners (NASDAQ: BGCP) and Newmark (NASDAQ: NMRK).

A brave new economic world in search of investor alternatives

By Mike Consol

Investors, listen up! You have a right to privacy — as in those private market investment opportunities giving you that come-hither look. And those product sponsors are especially attractive when compared with a public market that's looking awfully threadbare these days.

Maybe it's time to cross the street; sidle up to suitors such as Blackstone, Blue Owl Capital, Bluerock, Cantor Fitzgerald, CION Investments, Clarion Partners and others of their ilk; and give a serious look at fortifying your portfolio with some non-traded REITs and business development companies (BDCs) and private debt investments.

Among other considerations, the stock market has not looked this anemic in many years. What's more, among private investment vehicles you will find yourself in proliferating company. Witness that alternative investment fundraising totaled \$43.0 billion through April, according to Robert A. Stanger & Co. — a 131 percent increase over the same period of 2021. But let us

drill down on that number just a bit. Stanger separates out investment in nontraded REITs at \$15.6 billion through April (pacing well ahead of 2021's feverish \$36.5 billion total), and BDCs raked in a record \$11.6 billion during the same period. Meanwhile, rising interest rates promise to boost income at private debt firms and reward investors in the space.

Granted, lending money and collecting monthly payments from debtors isn't the sexiest line of business. Even credit lenders will concede that. But it's solid. It's steady. And the need to borrow capital is endless at any stage of the economic cycle. Here's something else to stick in your pipe and smoke while deeply contemplating the debt/equity ratio of your portfolio: Lenders, with the assistance of increasingly sophisticated credit-scoring software, have gotten extremely good at evaluating risk and separating the wheat from the chaff. Potential problem loans are usually sussed out quickly and denied access. All the better for individual investors.

Higher on the sex-appeal scale is real estate, the asset class that just keeps on

TABLE OF CONTENTS

Nontraded REITs... 4

Nontraded BDCs... 11

**Private Debt/
Credit 16**

giving. It's the most tax-advantaged asset class in America. Who can say "no" to real estate? We live in real estate. We work in real estate. We recreate in real estate. And, frankly, for those reasons, investors probably understand real estate investing more firmly than any other portfolio option available. Buy low, sell high. Location, location, location — and all those other real estate clichés and oversimplifications.

Enter the nontraded REIT, an owner and manager of real estate of every conceivable property type. Then enter the redoubtable Blackstone, the stud of Wall Street, whose Blackstone Real Estate Income Trust has alone accounted for 62 percent (\$9.7 billion) of the total 2022 fundraise in the category through April. It's not as though Blackstone is an oak among willows, either. It competes in the nontraded real estate space against the likes of Starwood Capital (17.2 percent market share), FS Investments (4.1 percent), Ares (3.4 percent), Nuveen (3.1 percent), Hines (2.7 percent), KKR (2.5 percent) and LaSalle (1.8 percent) — all of whom investors have entrusted with billions of their investable assets through various investment vehicles.

If there is any doubt about Blackstone being the alpha male strutting along Wall Street, consider that it also dominates the BDC category almost as thoroughly, staking out a 58 percent market share, according to Stanger. Staring straight at Blackstone's back and quickening their BDC pace are Blue Owl Capital and Apollo, each sporting a 15 percent market share, and HPS Investment Partners with a share north of 12 percent.

As Sean Connor, managing director at Blue Owl Capital, recently extolled in *Real Assets Adviser* magazine: BDCs are enjoying a renaissance. Designed to lend money to private middle-market businesses, these investment vehicles are growing rapidly; taking market share from other lenders; and providing investors, both institutional and individual, with the potential for returns that are above those available on traditional fixed-income products.

Connor acknowledges that BDCs, which were created in 1980 to boost lending to private firms, weren't always so successful at yielding returns, and they were plagued by high fees and poor management. Many

seasoned advisers recall bad experiences with the product.

Decades later, the picture has brightened, Connor says, as a new wave of managers entered the nontraded BDC business and brought with them deep experience in corporate lending and a true institutional approach. They also showed up at a time when the need for their skills was growing. Banks have been retreating from direct lending since the 1990s, opening opportunities for private lenders to come to the fore and supply the needed capital.

Indeed, BDCs are specialty finance companies and primarily make investments in the debt or equity of small and mid-size companies that big U.S. banks deem too small to bother with. A report from Charles Schwab offers examples of debt investing that include senior secured debt, subordinated debt and unsecured debt. On the equity side, BDCs invest in preferred or common stock.

Nontraded REITs invest in virtually any property type, including office space, apartments, shopping centers, industrial warehouses and so on. Operators of these organizations buy, develop and manage properties, holding the assets in their portfolios with the intent of allowing the properties to appreciate in value over time.

They are an attractive investment option for those seeking to hold assets noncorrelated to the stock market, while providing an income stream via the nontraded REITs' distributions to shareholders.

High fees and a lack of transparency have been the criticisms of nontraded REITs over the years, and investors should be cognizant that front-end fees can be as high as 15 percent. The upshot: understand the details and choose your product sponsor wisely, as with all investment products.

This much is clear: The economy is on the move, and so are the dollars seeking to reallocate and profit in the face of high interest rates and inflation. Nontraded REITs, BDCs and other private credit investments might just be investors' ticket to ride. ■

Mike Consol (m.consol@irei.com) is editor of *Real Assets Adviser*. Follow him on **Twitter** (@mikeconsol) and **LinkedIn** (linkedin.com/in/mikeconsol) to read his latest postings.



PERSONNEL

Denise Moose,
Special Reports Editor, project
management, editing

Larry Gray,
Editorial Director, editing and proofreading

Maria Kozlova,
Art Director, Design, layout and production

Susan Sharpe,
Art Director, Design, layout and production

Jacqueline Parkison,
Copyeditor, proofreading

Brooke Heffington,
Managing Director, *Real Assets Adviser*

Mike Consol,
Senior Editor, *Real Assets Adviser*

Cynthia Kudren,
Senior Account Executive, advertising sales

Copyright © 2022 by Institutional Real Estate, Inc. Material may not be reproduced in whole or in part without the express written permission of the publisher. The publisher of this special report, Institutional Real Estate, Inc., is not engaged in rendering tax, accounting or other professional advice through this publication. No statement in this report is to be construed as a recommendation to buy or sell any security or other investment.



Next-level real estate investing

Clarion Partners Real Estate Income Fund
from Franklin Templeton

The future of real estate investing is here. Clarion Partners Real Estate Income Fund (CPREIF) offers everyday investors access to private real estate opportunities.

visit www.cpreif.com to find out more.

40 YEARS



**CLARION
PARTNERS**

All investments involve risks, including possible loss of principal. The Fund's investments are highly concentrated in real estate investments, and therefore will be subject to the risks typically associated with real estate, including but not limited to local, state, national or international economic conditions; including market disruptions caused by regional concerns, political upheaval, sovereign debt crises and other factors.

Before investing, carefully consider the fund's investment objectives, risks, charges, and expenses. You can find this and other information in the fund's prospectus at www.cpreif.com.

©2022 Franklin Distributors, LLC. Member FINRA/SIPC. Clarion Partners, LLC, and Franklin Distributors, LLC are Franklin Templeton affiliated companies



Nontraded REITs grow up

By Sheila Hopkins

Public nontraded REITs (NTRs), also known as net asset value (NAV) REITs, raised a record amount of capital in 2021 — \$36.5 billion — and are on track to post another strong fundraising year in 2022. According to Robert A. Stanger & Co., NAV REITs raised \$21.3 billion in H1 2022, nearly 50 percent more than the \$14.3 billion raised during the same period in 2021.

Despite the current rocky investment climate, Stanger expects flows into NTRs to remain strong, projecting 2022 fundraising will reach \$35 billion for nontraded REITs, just a bit lower than the 2021 high-water mark of \$36.5 billion.

This strong growth and investor interest might come as a surprise to those who remember when nontraded REITs were opaque, risky, overpriced with fees on top of fees, and primarily a way for sponsors to make money at the expense of their investors. No RIA worth their salt would include them in their client offerings.

My, how times have changed.

“Nontraded REITs have meaningfully evolved over the last five years,” says Bill Stout, head of alternative investments business development at Nuveen. “The demand for real estate is strong and has motivated asset managers to address many of the structural and strategic challenges investors previously experienced.”

Fees and returns

When we look at those improvements, fee structures jump to the forefront.

Some managers are now offering significant management fee decreases, with a few even eliminating performance, acquisition and financing fees. The fees that remain in place tend to be transparent and tied to actual costs, with management and participation fees being the standard. Those that charge a performance fee believe this promotes an alignment of interest between the manager and investor and will also often pass on excess returns to investors if the fund clears specific hurdles.

“Most nontraded REITs today charge both management and incentive fees,” explains Janet Souk, portfolio manager at Clarion Partners. “Management fees are typically within the range of 1.25 percent on NAV, while incentive fees can be upwards of 12.5 percent. Clarion Partners Real Estate Income Fund [CPREIF] is one of the few funds in the space that does not charge an incentive fee.”

The total sum of the fees still makes this investment relatively expensive when compared to most non-real assets investments. As a point of reference, private equity fund fees are typically much higher, often charging 2 percent on NAV and a performance fee of up to 20 percent. In addition, the consistent monthly distributions, which have averaged well above fixed-income payouts during the past few years with less volatility than equities, and the prospect of realizing additional returns via asset appreciation can make investors comfortable with the fees and upfront costs.

“Nontraded REITs typically offer generally stable and consistent monthly distributions



in the 4–6 percent range,” says Stout. “2021 performance was exceptional for the industry, with total returns reaching 20–30 percent in many funds. However, that should not be expected to continue long-term.”

In addition to recalibrating fees to be more favorable for investors, NTRs now offer multiple share classes, some without upfront commissions, which give a wider range of investors access to the investment product. These options have created more alignment between advisers and their clients and allowed for deployment of a higher percentage of investors’ funds into assets.

“Nontraded REITs now have share-class options that offer different fee structures and commission options,” says Dugan Fife, senior managing director at Hines Securities. “Generally, there is an institutional share class option for RIAs and broker/dealers who offer fee-based accounts on their platform. This option does not pay a commission and does not have upfront costs. Other share classes have upfront costs, typically 3–4 percent, a dealer/manager fee, and an ongoing commission trail is paid to the adviser, which

is usually capped at 6 percent. Also, most nontraded REITs have an asset management fee and a performance incentive hurdle in perpetuity.”

How returns are generated has also changed to everyone’s benefit. Unlike the first iteration of nontraded REITs, when share value was determined by offering price, today’s NTRs use a monthly NAV to determine share value, allowing investors greater insight into how their investment is doing. Distributions are thus based on a realistic value of the portfolio, and investors have the ability to benefit from asset appreciation.

In the past, managers claimed that real estate did not lend itself to monthly NAV assessments because it took years for an asset to be acquired and sold. Until it was sold, NAV was just a guess. During the past decade, however, real estate has grown exponentially so that today, there are enough transactions in the market to come up with a fairly accurate model-based monthly value.

“I believe that the valuation process for nontraded REITs has proven to be durable,” says Raj Dhanda, partner and global head of

wealth management at Ares Wealth Management Solutions. “We have observed that nontraded REITs have been able to sell properties over the past four or five years at or near the valuations recorded in their NAVs. As the commercial real estate market has grown, the transactional volume has created more data points to supplement the third-party research that is available from firms like Green Street and CBRE.”

REIT structure

In addition to a reduction in fees and an increase in model-based NAVs, these vehicles have changed their basic structure to better meet the needs of high-net-worth individuals and investors who are looking for a diversified core or core-plus product to anchor their portfolio.

“Nontraded REITs have evolved from a closed-end to open-ended structure, which has been well received across the industry and is one of the catalysts behind the record-high capital raising the space is seeing today,” says Fife.



This change in structure has been well received because open-end funds are better suited for the long-term, stable assets that form a core strategy. They are also better suited for diversified holdings that help stabilize returns.

“Most NTRs today are diversified across a range of real estate property sectors and geographic locations, unlike public competitors, which tend to focus on one particular property sector,” says R. Scott Dennis, CEO of Invesco Real Estate. “NTRs can invest in sectors including but not limited to rental housing, the supply chain, various types of storage, and healthcare — all of which we deem essential to our economy today.”

Solving the liquidity problem

One of the primary reasons the real assets sector has lagged behind stocks and bonds in acceptance is its perceived illiquidity. These are assets that are meant to be held long-term, yet investors like the comfort of knowing they could sell if they wanted to. This nervousness around liquidity might be misplaced.

“I believe that investors have a tendency to overpay for liquidity,” says Dhanda. “It’s not

unusual to see an investor with up to 80 percent of their portfolios in liquid investments. But at the end of the year, it is not typical for someone to redeem 60 percent or 80 percent of their portfolio. If you can obtain a premium for semi-liquid products and you do not need the liquidity, then I believe there may be benefits to being allocated to those types of products in a more significant way.”

NAVs have been the key to turning NTRs from illiquid to semi-liquid products. The relatively recent advent of monthly — and sometimes even daily — NAV postings has come close to splitting the difference between a fully liquid equity and a fully illiquid real estate asset because sponsors can now price shares accurately for redemption.

“When an investor wants to exit, they simply complete and submit a redemption form five business days before the end of the month to redeem their shares at the current net asset value,” says Fife. “There are liquidity limits at 2 percent per month, 5 percent per quarter and 20 percent annualized.”

Nearly all major sponsors use this formula. If meeting investors’ requests for redemption would breach the liquidity limit, then requests are typically pro-rated so that all

investors requesting redemption receive something. Investment managers also typically discourage redemption in the first year.

“We keep a certain amount of the fund in liquid investments, which is intended to be available for redemption requests, but real estate is not something you want to buy and sell quickly. As such, investors who want to exit inside the first 12 months are subject to a 5 percent early repurchase deduction,” explains John McCarthy, CEO of Starwood Real Estate Income Trust. “However, given that those investors have been receiving monthly distributions, and NAV might have increased in the months since they entered the fund, they may not necessarily lose money. But they do know going in that they should be looking at this as a longer-term investment.”

Providing comfort to the anxious

RIAs have a fiduciary (or at least a moral) duty to make sure the products they offer their clients are suitable. In the past, non-traded REITs were rarely suitable. Today, however, they are regulated by the SEC and FINRA the same way as listed REITs.



HOW DO EXCHANGE- TRADED AND PUBLIC NONTRADED REITS COMPARE?

Like exchange-traded REITs, a public nontraded REIT:

- Invests in real estate
- Is subject to the same IRS requirements, including distributing 90 percent of its taxable income to shareholders
- Must register with the U.S. Securities and Exchange Commission and is required to make regular disclosures, including quarterly and annual reports that are available via the EDGAR system

Unlike exchange-traded REITs, a public nontraded REIT:

- Does not trade on an exchange and is typically only available through financial advisers
- Normally has a minimum investment of at least \$1,000 (and typically more)
- Has returns based on NAV, as opposed to exchange-traded REITs, whose price may or may not reflect underlying asset value
- Has a limit on how many shares can be redeemed each month/quarter/year
- May charge higher front-end fees
- Typically has a diversified portfolio, unlike exchange-traded REITs, which tend to be sector-specific

“There is not a lot of difference in regulation between a nontraded REIT and a listed REIT,” says McCarthy. “Non-listed REIT shares are registered with the SEC, subject to FINRA oversight and the approval of each state’s securities regulator for states in which the shares are being sold, which in many respects is more regulation than listed REITs receive. Nonlisted REITs issue 10Ks and 10Qs the same as listed REITs, but in addition report financial results and NAVs monthly and also make monthly distributions, while listed REITs do quarterly distributions.”

Nontraded REITs are also benefiting from institutional-grade management. Family offices have long recognized the benefits of private real estate investment in generating generational wealth. Now, professionally managed nontraded REITs are bringing the same oversight, research data and management to a retail product.

“Getting access to a world-class manager for 1 percent to 5 percent in total fees has proven pretty attractive to investors who understand that these are top-tier managers who have been servicing institutional investors for their long histories,” says McCarthy.

Filling the gap

Retail investors have always split their portfolios between equities and fixed-income, and for the most part, this strategy has served them well. Why add a real estate option? To fill the gap between stable but low-return bonds and volatile but higher-return stocks — and enjoy the tax benefits of owning private real estate to boot. Historically, real estate has had limited correlation with equities and has been negatively correlated with fixed income. Real estate also enjoys tax benefits, as the real estate can be depreciated for tax purposes, which shelters distributed income.

“As the third-largest asset class, private real estate can play a critical role in an individual’s portfolio,” says Dennis. “Potential benefits include diversification, relatively high income potential and tax advantages compared to more traditional equity and fixed-income investments. Real estate is viewed as an attractive portfolio diversifier due to its low correlation in comparison to equities and fixed income, which can potentially improve a portfolio’s overall risk-return profile. Additionally, the asset class has delivered on these benefits across market cycles, including the Great Financial

Crisis, and, importantly, during times of high inflation.”

Over the years, publicly traded REITs have outperformed nontraded REITs in total return, but they have also experienced more volatility and losses than their private counterparts.

According to Clarion Partners research, private real estate has historically had a significantly lower probability of negative returns versus public REITs, says Souk. “Over the past 20 years, private real estate has consistently produced stronger risk-adjusted returns than REITs, stocks and bonds, with less volatility. Notably, for the past 40 quarters beginning Q2 2012, the private equity real estate index [NFI-ODCE] has had one quarter of negative returns, while NAREIT [the publicly traded REIT index] has had 11 quarters of negative returns.”

This decreased volatility advantage has been borne out multiple times, but most recently in both the March 2020 and early 2022 downturns.

“During the end of the first quarter of 2020, equity markets fell precipitously. Traded REITs went down [25 percent or more], while nontraded REITs suffered

WHAT TO LOOK FOR WHEN ADDING A NONTRADED REIT TO YOUR PORTFOLIO OFFERINGS

Sponsor

- Is it a quality firm with a long history of success?
- Does it specialize in real estate?
- Is the nontraded REIT a priority?
- What resources do they have to maximize capital appreciation of their investments?
- Are they trusted by institutional investors as well as retail investors?

The nontraded REIT

- What is the performance over a three-year, five-year, seven-year, and inception-to-date timeframe?
- If diversification is the goal, is the REIT truly diversified by asset class and geography? Does it invest internationally or domestic-only?
- If concentration is the goal, is it allocated to the specific sector in which its investors want to be invested?
- How and how often can the investor view the fund's performance?
- How often does the fund release a valuation?

Fee structure

- Is fee structure appropriate in comparison to the risk-return profile of the fund?
- What are the asset management costs?
- Are there additional fees hidden in the acquisitions/dispositions of assets, etc.?
- Is there an incentive fee?

Distribution track record

- Is it consistent or has it been reduced?
- Is it generally at a rate around that of other nontraded REITs?

Ease of use/access

- Is the fund easy to invest in/track?
- What is the minimum investment to enter the fund?

allows the investor to use other investments to go down the risk/return spectrum.

"Nontraded REITs can be considered as a core income-producing investment, which often serves as a ballast to a diversified portfolio," explains Dhanda. "At a time when the fixed-income markets alone do not provide enough income and the equity markets are volatile, a series of solutions, such as nontraded REITs, which are institutional-quality and may offer income generation uncorrelated to the public markets, can be very appealing."

13 type of investors should consider nontraded REITs?

NTRs can be appropriate for nearly any investor, whether private or institutional.

"NTRs are often the first step for retail investors into private real estate because they are often viewed as being investor friendly," says McCarthy. "Everything is done in a monthly cadence. You are able to get into the fund monthly. We report our performance monthly. We issue our distributions monthly. Redemptions are done monthly. We also issue a 1099 for tax purposes, which is more investor-friendly than K-1 forms. So, the retail investor has found NTRs to be very approachable. We are also seeing institutions making sizable investments and becoming increasingly interested in NTRs because they get the same benefits as the large core [ODCE] funds, but with more flexibility and access to high-quality managers."

Bottom line

These products are designed for investors looking for tax-efficient income and growth. Nontraded REITs may be a viable option for investors who can handle limited liquidity and would like the diversification of direct real estate exposure previously only available to institutions.

"True alternatives are difficult to access for many individual investors due to high investment minimum thresholds and long lock-up periods, so specialized vehicles like the non-listed REIT provides a bridge for individuals to gain access," concludes Stout. ■

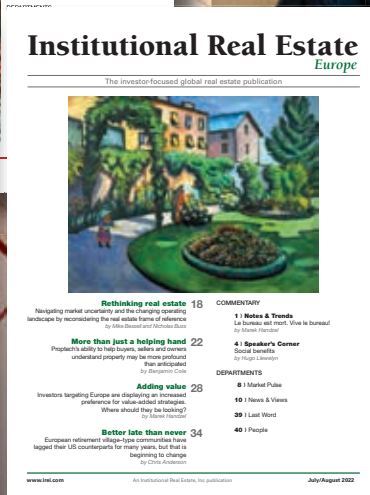
Sheila Hopkins is a freelance writer living in Auburn, Ala.

minimal declines in value. The capital markets overreacted to the COVID pandemic and appraisal-based valuations more accurately reflected true intrinsic value," says McCarthy. "Because the value of nontraded REITs is based on appraisals and NAV rather than more volatile investor sentiment, it creates a steadier market value. There have been

no dramatic swings like what occurred in March of 2020 with listed securities."

In addition to their reduced volatility, stable income and low correlation with other asset classes, NTRs can bring the stabilizing influence of a core investment strategy to a diversified portfolio. They can provide a foundation that anchors a portfolio and

Providing trusted news and information to investors around the globe



Institutional Real Estate, Inc. (IREI) publishes a diversified portfolio of news magazines, special reports and directories for the benefit of the global infrastructure and institutional real estate investment community and for private wealth advisers in the United States. Each publication provides subscribers with news, insights and perspectives on the trends and events shaping the industry and the investment landscape.

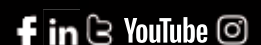
To learn more about our publications, go to www.irei.com.

INSTITUTIONAL REAL ESTATE, INC. *Investor focused.
Connecting People, Data, Insights*

2010 Crow Canyon Place, Suite 455, San Ramon, CA 94583 USA
Ph: +1 925-244-0500 • Fax: +1 925-244-0520 • www.irei.com

**Join our
subscriber list**

Sign up to receive our
publications and free daily
Newsline emails at
www.irei.com/subscribe



THIS ISN'T TRANSITORY.
IT'S TIME TO EXPAND YOUR
ALTERNATIVES.



Income. Diversification. Institutional Access.

CION can bring the opportunities of private assets to your clients.
Learn more at cioninvestments.com



The time is ripe for BDCs

Why these
nontraded
strategies
are picking
up steam



By Kali Persall

Forty years after they were created by Congress to boost lending to private firms, business development companies (BDCs) — vehicles that invest in privately owned small and medium-sized companies, as well as new or distressed companies — seem to finally be attracting investor attention and capital.

BDCs can be a powerful tool in the hands of a capable manager or adviser. For one, they provide individual investors with direct access to institutional-quality private credit asset classes that are typically dominated by institutional or high-net-worth investors who meet high minimum investment requirements. BDCs can also elect to be regulated investment companies (RICs) under the U.S.

tax code, leading to more attractive dividend yields for investors and providing considerable tax benefits (BDCs aren't required to pay corporate income taxes as long as they distribute at least 90 percent of their taxable income to shareholders each year).

BDCs can be either public or private — each option carrying its own share of risks and benefits — but are required to invest a minimum of 70 percent of their assets in middle-market U.S. companies regardless. Private (nontraded) BDCs are not required to list their securities on a national securities exchange. They can provide individual investors with access to institutional-quality private credit investments in a semi-liquid vehicle that typically exhibits lower volatility than its publicly traded counterparts. Nontraded BDCs are typically purchased

through the assistance of an investment adviser with investor suitability requirements established for each individual fund. Being nontraded allows the BDC to raise capital in a continuous private offering, eliminating price volatility. However, underlying loan investments in BDCs can offer less liquidity than public alternatives, and nontraded BDCs are even less liquid than public BDCs. Nontraded BDCs also have a reputation for higher fees and have redemption limits. However, experts say the BDC landscape isn't what it once was; it has been described as undergoing “a renaissance,” with illiquidity and other issues seeing improvement. On the other hand, nontraded BDCs can provide investors with higher-than-average yields, and they are desirable due to their accessibility, ability to generate current income,



diversification and transparency. A report from Blackstone states that in 2020, aggregate assets of the total BDC market were at \$111 billion, up from just \$4 billion in 2002. If money talks, it is calling a new wave of managers to the BDC space to lead it to the next phase of evolution.

Take Blackstone, for instance. The \$941 billion assets under management firm's credit arm strengthened its foothold in the non-traded BDC space with the launch of its Blackstone Private Credit Fund (BCRED), a perpetually nontraded BDC, in January 2021. This captured headlines as the first perpetual-life BDC in the nonlisted BDC space, and multiple managers have launched their own nontraded BDCs on its heels. The fund now has \$46.2 billion of assets and is 96 percent senior secured, according to Blackstone's website. Blackstone Credit also manages Blackstone Secured Lending Fund, which is a private-to-public BDC that primarily invests in the first-lien senior-secured debt of private U.S. companies. Blackstone's distribution channels include institutional investors, wirehouses, broker-dealers, RIAs and family offices.

"We are focused on privately originated and privately negotiated, senior-secured, floating-rate loans to U.S. companies with a focus on current income and principal protection," says Carlos Whitaker, a senior managing director at Blackstone Credit and president of the firm's two BDCs. "We seek to lend to performing companies in what we believe to be resilient/higher-growth sectors where we have long-term conviction in the companies' ability

to service their debt and repay the principal." He adds, "We focus on being a senior-secured part of the capital structure, with low LTVs, in transactions backed by well-capitalized financial sponsors."

Apollo Global Management is another high-profile manager that has found success in the BDC space. Apollo Debt Solutions BDC is a registered, nonlisted BDC that provides access to exclusive investments targeted by the largest institutions to individual investors. The fund focuses on senior-secured large corporate direct origination, broadly syndicated loans and, to a lesser extent, middle-market direct lending. Apollo Debt Solutions BDC expects to invest at least 80 percent of its total assets in private loans and securities, mainly to large-cap private U.S. companies. Apollo cautions on its website, "An investment in the fund involves a high degree of risk. You should purchase these securities only if you can afford the complete loss of your investment." However, partnering with large institutional managers on BDCs offers certain benefits that may not be possible with smaller firms. According to Lucy Lu Munro, principal in Apollo's global wealth business, firms such as Apollo give BDCs the ability to leverage large networks of industry relationships and firmwide resources to execute transactions that cater to the specific needs of borrowers.

"We believe BDCs provide a compelling opportunity to lend to large corporate borrowers who cannot or do not want access to the broadly syndicated loan market or are too big for the private middle market," says

Munro. "Given the rapid growth in private credit, the significant unmet demand for scaled direct lending solutions, and banks' reduced risk appetite and stricter regulations, BDCs are well positioned to step in as a creative solutions provider of size and scale."

Sean Connor, managing director at Blue Owl Capital and president of Blue Owl Securities, attributes much of the growth in the BDC market to institutional manager participation, as well as demand for alternative sources of yield and innovation.

Blue Owl Capital, which Connor describes as "the most active user of BDCs in the industry," has been at the forefront of the innovation trend, having identified investor demand for yield and marrying it with the BDC structure that was previously misunderstood — and often misused, according to Connor. Blue Owl manages more BDCs than any other manager on behalf of a global, institutional and individual investor base. Since inception, the company has deployed more than \$50 billion of capital across more than 320 loans with an annualized loss rate at only 0.05 percent, even throughout the pandemic. The company's direct lending business, Owl Rock Capital, is one of the top-rated BDCs on the market, seeking to generate strong risk-adjusted results. In an effort to provide new, innovative ways for clients to access the direct lending space, Blue Owl offers both private BDCs that intend to go public and perpetually private versions, which are available to institutional and private wealth investors globally. Blue Owl recently launched Owl Rock Technology Income Corp. (ORTIC),



an evergreen BDC that provides exposure to high-quality private software and other technology-related businesses. Blue Owl also manages its Owl Rock Core Income Corp. (ORCIC), a diversified or “generalist” direct lending strategy.

“While we continue to grow with institutional investors, we are also hyperfocused on the private wealth channel to provide advisers and their clients best-in-class strategies in the direct lending space and beyond,” says Connor. “One differentiator for us is that all our investors benefit from an allocation policy that treats our products equitably; any opportunity that enters our pipeline is eligible for investment across any BDC. We do not ‘cherry pick’ deals based on investor type, so transaction terms will be consistent across mandates.”

Economic contributors

Changing market conditions have also perhaps paved the way for BDCs to step up and provide alternative financing solutions. Industry experts say the banks’ gradual, secular pullback from the direct lending market may be enabling BDCs to fill the void.

Although this pullback has been under way for decades, rising interest rates and inflation exacerbated by supply-chain issues and market volatility caused by the Russian invasion of Ukraine have dealt a huge blow to the leveraged loans exposure of U.S. banks. In July, Reuters reported that leveraged loans fell to \$737 million in the first half of the year, down from \$883 million the previous year.

“BDCs have the flexibility to make investments that may be difficult for traditional

banks due to the leveraged lending limits and restrictions placed on banks when attempting to finance certain opportunities,” says Dwayne Hyzak, CEO of Main Street Capital. “BDCs have the ability to review each opportunity on its investment merits, without consideration of these leveraged lending limitations, and propose a financing solution the BDC believes is structured appropriately for the opportunity. Additionally, BDCs may be in the unique position to be a more reliable source of financing during periods of market volatility.”

Main Street is a principal investment firm that provides long-term debt and equity capital to lower-middle-market companies and debt capital to middle-market companies. Main Street’s wholly owned asset management business also manages a non-traded BDC, which raised capital from 2012 to 2017.

Grishma Parekh, managing director, co-head of core senior lending North America at HPS Investment Partners, feels that investors are flocking to the opportunity set that the market environment has created for BDCs since the beginning of 2022.


“The broader market has experienced volatility stemming from supply-chain disruptions, the Ukraine/Russia conflict, rising interest rates, inflation and recession fears, which has resulted in a severe downturn in the activity of the public loan and bond markets and a significant reduction in bank lending appetite as banks work through prior large-scale commitments still held on their balance sheets,” says Parekh. “With limited

viable liquid financing solutions, many larger-scale, high-quality and seasoned public issuers are turning to direct lenders. This dynamic creates a very compelling opportunity set for scaled direct lenders, like HPS Direct Lending, to step in and provide them with customized financing solutions and certainty of execution. We are also often able to negotiate better pricing and lender-friendly terms and documentation that support our goal of generating better risk-adjusted returns for our investors.”

HPS’ direct lending strategy focuses on lending to upper-middle-market or larger companies in recession-resilient sectors. The HPS Corporate Lending Fund (HLEND) is a continuously offered, nontraded BDC that essentially serves as a “structural wrapper” around HPS’s existing direct lending strategies, according to Parekh. Unlike other companies, HPS does not solely focus on lending to private equity-backed companies, as it believes widening its origination funnel enhances the firm’s investment selectivity.


Industry participants agree that rising interest rates and inflation will affect BDCs differently based on their investment strategies, the nature of their investments and their capital structure. However, there is a belief that amid talks of a recession, BDCs may actually be a compelling strategy to pursue.

“We believe BDCs that are most appealing to investors right now are those focused on floating-rate middle-market loans that are at the top of the capital stack and contain appropriate covenants,” says Michael Reisner, co-CEO of CION Investments. CION



TIME EQUITIES INC.
DIVERSIFIED REAL ESTATE INVESTMENT COMPANY | EST. 1966

SINCE 1966



**DIVERSIFIED
INCOME FUNDS**

**CUSTOMIZED
1031 EXCHANGES**

**PREFERRED
EQUITY**

**INDUSTRIAL
MULTI-FAMILY
OFFICE
RETAIL**

Find out more at...
TEequity.com

This is neither an offer to sell nor a solicitation of an offer to buy the securities referenced herein. An offer is made only by a Confidential Private Placement Memorandum of the Company (the "Memorandum"). Time Equities Inc. and Time Equities Securities LLC are affiliates. Securities Offered Through Time Equities Securities LLC, a Member of FINRA.

Investment Corp. was declared effective as a nontraded BDC and raised capital through the RIA and IBD distribution channels, then converted to a publicly traded BDC in October 2021. "In our current environment of rising interest rates, they cannot only mitigate interest rate risk, but they also have the potential to perform well as rates increase."

"First, BDCs typically originate and hold a portfolio of loans at the senior-secured position of the capital structure, which can help with capital preservation," adds Connor. "Second, loans that BDCs make are typically floating rate, which historically outperformed traditional fixed income in rising rate environments. They tend to do even better when rates rise more quickly like we have witnessed this year. Although traditional fixed-income yields have increased in the last several months, the Fed's anticipated path for additional rate hikes may likely continue to pose significant downside risk for these markets."

On the downside, Hyzak points out that the impacts of inflation, such as increased cost and the limited availability of labor, key raw materials and other key product inputs, could decrease the profits and cash flows of the BDC's underlying portfolio companies at the same time the interest expense on the portfolio company's debt obligations is increasing. The compounding impact of these negative consequences on the portfolio companies' cash flows could result in increased nonaccrual and credit losses in the future on the BDC's investment portfolio and negatively affect the BDC's overall returns.

Whitaker notes that although inflation can affect portfolio company performance, Blackstone Credit is focused on investing in sectors it believes are higher growth to hedge against potential inflation. These companies have pricing power, and their growth outpaces inflation. Due to Blackstone's significant scale, the firm tends to invest in larger companies in these growth sectors, as larger companies tend to perform better than smaller companies across different market and economic cycles.

Regardless of their size and scale, industry participants agree that no two BDCs are the same, which can pose challenges, but the key to finding success — in times of market volatility or not — is having the right investment adviser. Hyzak points out that determining the merits of investing in a BDC can be difficult for a newly launched BDC; therefore, it is imperative that investors perform proper due diligence on the management team or adviser to the fund to understand their track record, history and knowledge of the asset class that is the focus of the BDC's investment strategy.

Reisner says much the same: "BDCs should be looked at similarly to any other investment, and investors need to understand the investment strategy, investment manager and performance of a specific BDC through various cycles before deciding. For investors, and when done the right way, BDCs generally can serve two core purposes: provide durable income and offer diversification within a portfolio by way of the private markets." ■

Kali Persall is an associate editor at Institutional Real Estate, Inc.

NEWSLINES

A FREE
digital news
service delivered
daily to your
inbox.

IREI publishes four Newslines — each one contains original stories about the latest news, transactions, hires, fundraising and more within a particular sector.

Real Estate • Infrastructure • Real Assets Adviser • iREOC

SIGN UP AT
www.irei.com/subscribe

**INSTITUTIONAL
REAL ESTATE, INC.**

Private debt to

Private lending increasingly sustains enterprise, U.S. economy

By Benjamin Cole

Nearly every denizen of the private lending world will explain, financial markets changed after the global financial crisis (GFC) of 2008–2009.

In brief, the federally insured commercial banks — with Uncle Sam’s regulators zealously running their “stress tests” — had to boost loan underwriting standards if they wanted permission to operate, let alone pay dividends or buy back shares.

The higher hurdles left many borrowers, especially medium-sized or growth companies with edgier credit profiles, empty-handed at bank windows.

Moreover, in recent decades many regional banks have been merged into the behemoth surviving banks, tearing asunder the relationships between middle-market companies and their traditional patron financiers, the local bank.

And that’s not all. In addition, after 2009 the credit-rating agencies brought back the guys with the green eyeshades and gimlet eyes, having seen their AAA-rated bonds turn into junk within a season during the GFC real estate bust.

So, for many enterprises, the post-GFC world quickly became barren of capital-raising venues.

But, like nature, financial markets abhor a vacuum. Thousands of medium-sized enterprises in America were wanting for capital and willing to cut deals or pay the vigorish to get the money. And so, the non-bank private lending industry came into its own. While

definitions can vary, in general, private or direct lending refers to business loans not provided by commercial banks or through public bond markets.

“Now, it is financiers such as BlackRock TCP Capital that serve the middle market which are the backbone of the U.S. economy,” says Raj Vig, chairman and CEO of the private lender. “Viable, enterprising middle-market companies have been driven to seek financing outside of the banks.”

Rapid expansion

Indeed, BlackRock’s Vig is part of an ascendent U.S. private credit market that has grown like a weed since 2009, seizing market share readily from the banks, whether investment or commercial.

Private lenders had about 10 percent of total U.S. credit markets in 2009, but by the third quarter of 2021, private lenders had a 30 percent share of the national market, and their cut of the pie is still rising, reported Blackstone in a recent report.

Private credit lenders in the United States now manage \$1.2 trillion, up from about \$300 billion in 2010, estimated Blackstone. The outlook is for more of the same.

No fear

That private lenders are willing to rush in where commercial banks fear to tread is almost invariably due to intense industry expertise and experience. While commercial banks are somewhat generalist lenders, the private lenders tend to hew closely to their bailiwicks.

For example, the CIM Group has more than 25 years of operational and real estate



the rescue



lending expertise, heavy into bridge, mortgage, construction and special situation loans, reports Dan Schapiro, managing director, investments, at CIM Group.

The CIM Group concentrates on high-quality real estate assets and will even venture into nonperforming note financing and entity recapitalizations.

But CIM Group is not only a lender. “CIM is a real estate and infrastructure owner, operator, lender and developer,” explains Schapiro.

As the maxim goes, “There is no learning like doing.”

In brief, CIM Group has operational experience in the same property sectors into which it is willing to lend. As for CIM Group, even in a challenging 2022, “we continue to find attractive investment opportunities in all asset classes,” advises Schapiro.

Deep industry knowledge gives comfort to private lenders that they are taking only warranted risks and can extend credit more quickly than the somewhat ponderous commercial banks.

The capital glut

The private lending world has also benefited — although is also challenged by — the global capital glut, or the heavy supply of savings and capital that has defined U.S. and world financial markets in the 2000s. It was perhaps former Federal Reserve Chairman Ben Bernanke who popularized the phrase in the early 2000s.

The causes of the capital glut are debated, and even the concept is sometimes dismissed, although certainly not by financiers who talk regularly about “too much money chasing too few deals.”

Some say various pension and insurance rules generate continuous new capital supply, while others point to income stratification and the emergence of moneyed elites who can afford to invest nearly the entirety of their income. Some nations, especially in the Far East, essentially force their economies into high savings rates — and the world is now defined by globalized capital markets. High savings rates anywhere on the planet spill over into other economies.

In general, the 2000s savings glut has depressed yields in lending markets, the basic supply and demand in play.

For private lenders, able to skillfully and rapidly enter particular and complicated opportunities, the capital glut helped open up a market: investors who wanted higher yields and would entrust private lenders to get those returns.

And each year, it seems more investors want in on the higher yields on the private credit bandwagon: Private credit is also garnering significant attention from U.S. public pension funds as part of their alternative asset allocation strategies. The \$440 billion California Public Employees’ Retirement System (CalPERS), the largest U.S. public pension system, announced in November 2021 that it had increased its asset allocation target for private debt to 5 percent from 0 percent, noted Moody’s Investors Service in a recent report. And just like that, another \$22 billion is headed into private credit markets.



Industry-Leading Provider of Innovative Third-Party Due Diligence Solutions

Mick Law PC provides our clients with individualized legal opinions, as well as customized due diligence solutions, on the financial and structural aspects of alternative investment offerings, with an additional focus on project and fund structure, financing, valuation and exit analysis. Comprised of attorneys, petroleum engineers and real estate underwriters, our team's due diligence processes and service focus areas include, among others:

➡ Real Estate

- Delaware Statutory Trusts (DSTs)
- Qualified Opportunity Zones (QOZs)
- REITs (Public Non-Traded, Reg D and Reg A+)
- Development Projects
- Conservation-Oriented Real Estate
- Lending Funds / Debt Programs / Mezzanine Programs

➡ Oil & Gas, Energy

- Drilling Partnerships
- Royalty Programs
- Leasebank
- Pipeline Infrastructure
- Water Disposal Programs
- Renewable Energy Programs

➡ Additional Alternative Classes

- Private Equity: Funds and Direct Investments
- Interval Funds
- Liquid Alternatives / 40 Act Funds
- Life Settlements
- Private Placement Life Insurance (PPLI)
- Hedge Funds
- Managed Futures
- Equipment Leasing
- Cryptocurrency
- Cannabis Funds

Contact us to discuss how we can customize an affordable and effective due diligence solution that fits your needs.
402-504-1710 | www.micklawpc.com

Yield hunt

Investors such as CalPERS are hunting for higher yields — the yields that private lenders can offer, including in the “floating” or variable-rate debt.

“Direct [private] lending has benefited from investor demand for floating-rate debt,” explains Armen Panossian, managing director and head of performing credit at Oaktree. Rising interest rates have made private debt with floating rates attractive to investors because coupons have increased and the debt’s interest-rate risk is low, adds Panossian.

“Floating-rate direct loans have historically performed well in rising-interest-rate environments,” says Panossian, noting, of course, that “rising rates” describes much of 2022.

Other private lenders target the high yields available on senior-secured loans via collateralized loan obligations (CLOs), such as New York-based Bluerock’s High Income Institutional Credit Fund.

In brief, Bluerock extends senior secured loans to pools of below-investment-grade companies. Such loans are often underwritten by a lead bank and syndicated. Usually, senior loans pay a floating interest rate.

A CLO is a single security backed by pools of debt (that is, a number of loans to different businesses or properties), a cousin to commercial mortgage-backed securities.

To be sure, lending into CLOs is a pastime for the financially intrepid — although Bluerock limits risks by taking a senior position. In any event, the strategy has worked: Since 2003, Bluerock boasts it has had only one year in which yields dropped below 10 percent, the benchmark-grim 2009. It has topped 20 percent returns twice in that time frame and averages a 14.8 percent yield through the whole period. Not bad at all in a world of low-single-digit yields on U.S. Treasuries.

Private lending lives

In recent years, industry skeptics have warned private lending was a “bubble” that was growing only because investors could not get returns in traditional credit markets; that is, the punishingly low interest rates of 2010–2020 drove desperate investors into the arms of private lenders.

In 2022, that skepticism has yet to be borne out. While interest rates have indeed risen in bond and credit markets, returns into other markets — ponder equities, or gold — have become uneven. And yields in private lending have also risen, to remain relatively attractive to investors.

Indeed, Oaktree foresees a likely growth spurt for private real estate lending, as a tsunami of property debt matures in 2022 and succeeding years, most of which will have to be refinanced — but refinanced in a possibly troubled market of soft property values.

In a recent report, Oaktree explained that they anticipate significant debt maturities approaching. The current shape of the “wall of maturities” indicates about \$400 billion to \$450 billion

Follow

REALASSETS

ADVISER

on LinkedIn and Twitter

By following **Real Assets Adviser**, you will receive updates on the latest additions to our new **Resource Center**, which provides **educational** information and benchmarking tools, including:

- **Sponsored Company Profiles, Interviews and Reports**
- **Top Ranks Guides**
- **Industry Products and Asset Manager's Guide**
- **Industry News**
- **White Papers**
- **Data and Research**
- **Videos & Podcasts**
- **Press Releases**
- **Real Assets Glossary**
- **Testimonials**



For more information about **Real Assets Adviser**, please contact **Brooke Heffington**, Managing Director, **Real Assets Adviser**, at b.heffington@irei.com or +1 925-365-7165



Follow Real Assets Adviser on **LinkedIn**



Follow us on Twitter at **@RealAssetsAdv**

Visit our website at
www.realassetsadviser.com



of CRE loans will mature on an annual basis for the next handful of years.

But the would-be property-buyers, that is those with maturing debt, may find the commercial banks not so interested in extending riskier loans anymore, especially with federal regulators scrutinizing commercial bank asset quality.

Of course, that means another market opens up for private lenders.

Carpe diem

Again and again, when traditional financiers get cold feet, the private lenders show they are willing to move to the fore.

Take the life sciences and software industries, the perennial hot IPO and pre-IPO sectors — until 2022, or thereabouts. Now, in the public markets, what was hot is not, and that includes certain tech segments.

But those growth-stage biotech and software companies have an alternative to shriveling up, and that is the private lenders.

“Public market valuations of life sciences companies have plummeted over the last 12 months, so companies may seek nondilutive financing in private markets,” explains Panossian of Oaktree. “We expect that significant lending opportunities in these industries will develop, driven by technological advancements and sizable research and development requirements.”

Looking forward, some private creditors are eyeing U.S. housing markets. While in mid-2022 there might be rattles in the sector, the basics and demographics are that the United States does not build enough housing and has not for decades. Housing costs along the West Coast are testament to that, usually a result of tight zoning and other restrictions.

“We believe there are continued tailwinds for growth in the U.S. residential rental sector, including apartments and single-family homes for rent,” observes Zach Vaughan, managing partner in Brookfield’s Real Estate Group and the global head of Core Plus and Perpetual Real Estate Funds.

“Demand continues to outpace new supply for residential units, and home

ownership has become more challenging and less desirable for many U.S. citizens,” adds Vaughan.

That being the case, Brookfield is targeting real estate credit, in particular high-quality real estate owned by well-capitalized sponsors.

Risks?

There is no denying that dreadnought private lenders have filled the void in the 2000s left by retreating commercial banks and the increasingly balky bond market.

American enterprises and property owners and developers have used the private capital provided to survive, grow and innovate, and to employ millions of workers. No one can deny that when capital is directed to productive endeavors, everyone benefits.

Still, in mid-2022, with the United States and global economies looking shaky, hardly a week has passed without one of the credit-rating agencies issuing a report along the lines of “Private credit boom increases opacity and risk in the leveraged lending space,” as Moody’s Investors Service did in June.

“Growing appetite for the yield, convenience and plentiful capital of private credit alternatives will continue to expand this opaque market,” says Moody’s. But, warn the credit mavens, in private credit markets, “weakening performance may go undetected before it disrupts the capital markets and economy.”

If the U.S. economy goes into a serious recession, “a growing number of middle-market businesses with excessive leverage would be vulnerable to default,” warns Moody’s. “Moreover, private credit investment origination and risk management processes are deeply opaque and the risks difficult to assess.”

A typical 2022 headline from S&P Global: “Private debt structure worked in pandemic, but true test remains.”

Of course, credit-rating agencies are paid to worry, and perhaps have conflicts of interest when writing about lenders who do not hire the debt raters as financial governors.

Still, if there is global financial downturn, few can predict the shape of or the fallout in the private credit markets. Nobody knows whether the industry can pass stress tests.

On the other side of the coin, if free markets work — and that is the idea of Western economies — then private lenders take warranted risks when extending loans. In addition, there are mechanisms, such as exchanging sour debt for an equity stake or control of the borrower, for handling troubled situations. Overleveraged enterprises can emerge less burdened from a workout or bankruptcy, ready to expand anew. A debt-equity swap can avoid the shuttering that all investors, managers and employees want to avoid.

And, as S&P noted, the private-debt wizards made it through the global pandemic, hardly a cakewalk. If there is to be a recession, the deeply knowledgeable private lenders are probably as well-placed as any other creditors.

Conclusion

The dramatic growth of the private lending sector of the U.S. financial scene since 2000 is a tribute to the participants — but even more importantly, a sign of an unmet need, and a rising demand.

America’s growth has produced middle-market companies that need capital to survive and expand, and investors globally are hunting for yield. If German sovereign bonds offer negative yields — and many sovereign bonds have offered negative returns in recent years — who can blame investors for linking up with private creditors?

If medium-sized companies are politely shunned by banks, what options are available?

The private credit industry has been a boon to the U.S. business scene and has rewarded investors willing to venture into alternative assets. Because it has performed so well, the private credit sector appears poised to become the dominant form of middle-market corporate finance for decades to come. ■

Benjamin Cole is a freelance writer based in Singapore.



The Future of Private Capital Solutions

Blue Owl is a global leader in providing access to private markets through differentiated alternative investments, focused on three market specialties: direct lending, GP capital solutions, and triple-net real estate strategies.

Learn more at blueowl.com

Strength

In Partnership

Power

Through Innovation





BLUEROCK™

A Nationally Recognized Provider of Income, Growth, and Tax Investment Programs

Bluerock is a leading institutional alternative asset and investment management firm with more than \$15 billion in acquired and managed assets offering a complementary suite of public and private investment programs, with both short and long-term goals, to individual investors seeking solutions aimed at providing predictable income, capital growth, and tax benefits.

Real Estate Investment Trusts



**BLUEROCK
Industrial
Growth REIT™**

A private, non-traded REIT that acquires Class A and B industrial properties primarily in growth markets across the United States.



**BLUEROCK
Residential
Growth REIT™**

A publicly traded REIT (NYSE American: BRG) that acquires well-located, Class A apartment properties in growth markets across the United States.

Interval Funds



**BLUEROCK
Total Income+
Real Estate Fund™**

A closed-end interval fund utilizing a multi-strategy, multi-manager, and multi-sector approach allowing individuals to invest in institutional private equity real estate alongside some of the nation's largest endowment and pension plans.



**BLUEROCK
High Income
Institutional Credit Fund™**

A public, closed-end interval fund that provides individual investors access to a rapidly growing institutional asset class of private credit with opportunities for high income returns.

1031 Exchange/DST



**BLUEROCK
Value Exchange™**

A national sponsor of syndicated 1031 exchange programs (structured as Delaware Statutory Trusts (DSTs)) that seek to provide continued tax deferral, deliver stable cash flows and value creation.

LEARN MORE AT:

BLUEROCK.COM

Investment Professional Use Only: This is neither an offer to sell nor a solicitation of an offer to buy any securities, which can be made only by the applicable prospectus or private placement memorandum. This material must be reviewed in conjunction with such prospectus or memorandum to fully understand all of the implications and risks of the offering of securities to which it relates. A copy of such prospectus or memorandum must be made available to you in connection with the applicable offering. Prospective investors should carefully read the applicable prospectus or memorandum prior to making an investment and should be able to bear the complete loss of their investment. Securities offered through Bluerock Capital Markets, LLC (Member FINRA/SIPC). V-22-83

STRATEGIES BEYOND ORDINARY